

## Message Text

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AMEMBASSY COPENHAGEN

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E.O. 11652: N/A

TAGS: ELAB, ECON, PINT, IC

SUBJECT: LABOR TALKS WILL TEST GOI ECONOMIC POLICY

1. THE GOVERNMENT'S HOPES FOR CURBING INFLATION WILL BE ON THE LINE IN MAJOR LABOR NEGOTIATIONS THAT BEGIN JANUARY 10. TALKS STEM FROM GOVERNMENT'S 1974 ANTI-INFLATION MEASURES THAT SUSPENDED KEY PROVISION OF EXISTING GENERAL WAGE AGREEMENT.

2. OFFICIALLY, TALKS WILL BE BETWEEN MANAGEMENT REPRESENTATIVES AND NINE-MAN COMMITTEE REPRESENTING OVER 25,000 MEMBERS OF ICELANDIC FEDERATION OF LABOR. HOWEVER, GOVERNMENT WILL BE BEHIND-THE-SCENES PARTICIPANT AND MUST SET GUIDELINES ON SUCH ISSUES AS ANY SALARY INCREASES OR RESTORATION OF WAGE-PRICE LINK, BOTH CURRENTLY SUSPENDED BY LAW. ONE IFL OFFICIAL TOLD EMBOFF THAT, IN FACT, NEGOTIATIONS WILL BE BETWEEN LABOR AND GOVERNMENT, SINCE EMPLOYERS WILL ALMOST SURELY AGREE TO ANY TERMS ACCEPTABLE TO GOVERNMENT. ALSO ON AGENDA WILL BE SUBSIDIES FOR LOWEST PAID

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WORKERS AND GUARANTEED EMPLOYMENT.

3. INDICATIONS ARE THAT LABOR ENTERS TALKS WITH WHAT IT CONSIDERS LEGITIMATE CLAIMS, BUT RECOGNIZES NEED TO COMBAT RAMPANT INFLATION AND WILL MODERATE ITS DEMANDS ACCORDINGLY. THUS, WHILE LABOR LEADERS HAVE ALLEGED 38-39 PERCENT LOSS IN PAY DUE TO GOVERNMENT'S ACTION, THEY HAVE AVOIDED ADVANCING RECOVERY OF ANY SUCH AMOUNT AS DEMAND IN UPCOMING NEGOTIATIONS.

4. ON OTHER HAND, LABOR APPARENTLY DOES EXPECT THE KIND OF CONCRETE RESULTS THAT WOULD ENTAIL SOME EASING BY GOVERNMENT OF CURRENT ANTI-INFLATION PROGRAM. THIS WOULD BE DIFFICULT CONCESSION IN PRINCIPLE FOR GOVERNMENT, WHICH HAS BEEN PREACHING AUSTERITY AT EVERY OPPORTUNITY. NEGOTIATIONS COULD ALSO CAUSE POLITICAL STRAINS ON GOVERNING COALITION BY SPOTLIGHTING FAR GREATER SUSCEPTIBILITY OF INDEPENDENCE PARTY THAN PROGRESSIVE PARTY TO LABOR PRESSURE.

5. PETUR SIGURDSSON, MEMBER OF IFL EXECUTIVE BOARD AND INDEPENDENCE PARTY MP, TOLD EMBOFF JANUARY 7 THAT TALKS WOULD RESULT IN WAGE INCREASE, POSSIBLY TO BECOME EFFECTIVE BEFORE MAY 31 SCHEDULED EXPIRATION OF WAGE FREEZE. HE STRESSED, AS HAVE OTHER SOURCES, IMPORTANCE TO LABOR OF RETURN TO SOME SYSTEM OF LINKING WAGES TO PRICE INDEX. SIGURDSSON ADDED, HOWEVER, THAT FOR FIRST TIME IN RECENT MEMORY, THREAT OF UNEMPLOYMENT IS GENUINE CONCERN OF ICELANDIC LABOR, WHICH MEANS THAT EMPLOYMENT GUARANTEES WILL FIGURE PROMINENTLY IN NEGOTIATIONS. THIS PROSPECT IS LIKELY ADDED FACTOR IN TEMPERING LABOR'S OVERALL APPROACH TO TALKS.

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